

Strong upcoming launches

CMP: INR 246

Rating: Accumulate

Target Price: INR 277

Stock Info

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL:IN
Reuters	ASOK.NS
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	6,82,573
52w H/L (INR)	246/158
Avg Yearly Vol (in 000')	16,208

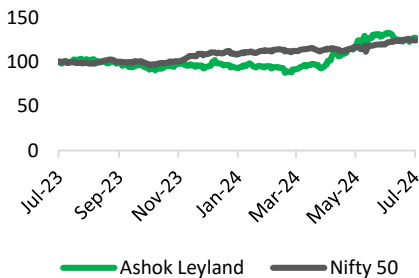
Shareholding Pattern %

(As on June, 2024)

Promoters	51.52
Public	22.03
Shares Underlying DRs	14.19
Non Promoter- Non Public	12.24

Stock Performance (%)	1m	3m	12m
Ashok Leyland	-3.9	30.8	27.2
Nifty	2.9	8.1	24.0

Ashok Leyland Vs Nifty



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Ashok Leyland Ltd (AL) has reported numbers below estimate but strong guidance. Standalone revenue stood at INR 85,607 Mn, below our estimate of INR 87,785 Mn registering a growth of 5% YoY/ down by 23.7% QoQ. EBITDA stood at INR 9,109 Mn, below our estimate of INR 9,675 Mn, down by 42.8%QoQ/+11% YoY. On the margins front, EBITDA margin is down by 354bps QoQ/+57bps YoY to 10.6%, below our estimate of 11% led by lower than the expected gross margin (down by 35bps QoQ to 27.8% in Q1FY25). Standalone PAT down by 8.8%YoY/ down by 42% QoQ to INR 5,255 Mn below our estimate of INR 8,370 Mn due to higher tax. EPS stood at INR 1.79 in Q4FY24 against INR 2.99 in Q4FY24. The company remains focused on achieving mid-teen EBITDA through efficient products and network expansion. The company sees new EV launches in the next 2 months boosting sales growth, with strong contributions from defense and international business.

Focus on market share expansion: Ashok Leyland is confident in increasing market share in both the truck and bus segments, with several new launches this year. In the LCV business, currently covering 50% of the market with plans to grow to 80% soon. FY25 has six LCV launches lined up, with two already launched in Q1 and four more to come. The sub 2-ton segment is a medium-term project. MS in the ICV bus segment is under 20%.

Strong upcoming launches: New product introductions include a nine-meter electric product. The IeV 4 EV-LTV and IeV 2, both segment-first e-LCVs, have potential to transform last-mile mobility. Ohm, the eMaas subsidiary, manages electric bus operations in Bangalore, Ahmedabad, Bihar, and Chandigarh. The company has the technology to produce engines beyond 250 horsepower and programs to extend higher horsepower range. So new products targeting the school and staff segments will be launched, along with other new products in the coming quarters. We believe, that it will help company to grow faster in the coming years.

Outlook and valuation

We believe AL is well-placed to achieve market share gains and volume growth, driven by new launches and demand for higher-tonnage CVs. The company plans several new launches in the LCV segment, including EVs, in FY25 to fill white spaces. Focused on achieving mid-teen EBITDA through efficient products and network expansion, AL expects new EV launches in the next 2 months to boost sales growth. Strong contributions are anticipated from defense and international business. The company expects the industry to exceed expectations, leading to operating leverage in Q2 and H2. Also indicating huge replacement demand potential in the next 2-3 years.

Value AL at a PE multiple of 20x for the parent automaker for its FY27E EPS of INR 13.2 (Include INR ~14 for HLF). We maintain our rating to Accumulate and value it with SOTP valuation for a target price of INR 277. (Earlier target price of INR 236 per share)

Exhibit 1: Financial Overview

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY24	3,83,670	46,066	27,116	8.9	12.0%	30.4%	27.6
FY25E	4,22,107	51,140	31,000	10.6	12.1%	32.0%	23.3
FY26E	4,64,914	57,402	34,923	11.9	12.3%	30.2%	20.7
FY27E	5,15,010	63,885	38,679	13.2	12.4%	28.4%	18.7

Standalone (INRm)	Q1FY25	Q4FY24	Q1FY24	QoQ%	YoY%
Revenue	85,607	112,191	81,520	-23.7%	5.0%
Other operating income	378	476	373	-20.5%	1.3%
Net Sales	85,985	112,667	81,893	-23.7%	5.0%
Cost of material consumed	61,988	74,925	58,764	-17.3%	5.5%
Purchases of stock-in-trade	4,167	4,245	3,582	-1.8%	16.3%
Changes in inventories	(4,109)	1,736	(1,975)	-336.7%	108.0%
Raw Material	62,046	80,906	60,372	-23.3%	2.8%
Staff Cost	5,498	5,535	5,376	-0.7%	2.3%
Other expenditure	9,333	10,305	7,938	-9.4%	17.6%
Total Expenditure	76,877	96,746	73,685	-20.5%	4.3%
EBITDA	9,109	15,921	8,208	-42.8%	11.0%
Depreciation	1,727	1,797	1,794	-3.9%	-3.7%
EBIT	7,382	14,124	6,414	-47.7%	15.1%
Interest	591	592	699	-0.3%	-15.5%
Other Income	223	1,179	512	-81.1%	-56.4%
PBT	7,014	14,711	6,227	-52.3%	12.6%
Current Tax	2,497	4,854	2,132	-48.6%	17.1%
Deferred tax	(738)	157	(1,675)	-571.5%	-55.9%
Tax	1,759	5,010	457	-64.9%	284.9%
Adjusted PAT	5,256	9,701	5,770	-45.8%	-8.9%
Extraordinary	-	(696.6)	(5.9)		
Reported PAT	5,255.8	9,004.1	5,764.2	-41.6%	-8.8%
EPS	1.79	2.99	1.96	-40.1%	-8.7%
Total Volumes (Nos)	43,893	56,269	41,329	-22.0%	6.2%
Net Realisation (INR)	1958975	2,002,291	1,981,488	-2.2%	-1.1%
EBITDA / Vehicle (INR)	207,521	282,946	198,589	-26.7%	4.5%
Margins	Q1FY25	Q4FY24	Q1FY24	QoQ (Bps)	YoY (Bps)
Gross margins	27.8%	28.2%	26.3%	-35Bps	156Bps
EBITDA	10.6%	14.1%	10.0%	-354Bps	57Bps
Adjusted PAT	6.1%	8.6%	7.0%	-250Bps	-93Bps
Effective Tax Rate	25.1%	34.1%	7.3%	-899Bps	1773Bps
<i>Cost Analysis</i>					
RM/Net Sales	72.16%	71.81%	73.72%	35Bps	-156Bps
Other Exp/Net Sales	10.85%	9.15%	9.69%	171Bps	116Bps
Staff cost/Net sales	6.39%	4.91%	6.56%	148Bps	-17Bps
Volume (In Units)	Q1FY25	Q4FY24	Q1FY24	QoQ%	YoY%
MHCV	26214	29720	24286	-11.8%	7.9%
LCV	15345	10,440	14,821	47.0%	3.5%
Total Sales	41,559	40,160	39,107	3.5%	6.3%
EXPORT	56,904	50,600	53,928	12.5%	5.5%
M&HCV	1,671	7,429	1,879	-77.5%	-11.1%
LCV	663	8,680	343	-92.4%	93.3%
Total Exports	2,334	16,109	2,222	-85.5%	5.0%
Total Volume	43,893	56,269	41,329	-22.0%	6.2%

Source: Arihant Research, Company Filings

Ashok Leyland Q1FY25 Earnings Conference Call

The company remains focused on achieving mid-teen EBITDA through efficient products and network expansion. The company sees new EV launches in the next 2 months boosting sales growth, with strong contributions from defense and international business. The company expects the industry to do better than even their expectations, leading to operating leverage in Q2 and H2.

Demand

There is a shift in demand towards tractor-trailers, growing rapidly in India and reaching 20% of the market, and 60-70% in other markets like Europe. Retail demand for commercial vehicles is also very positive.

Market share

In the LCV business, currently covering 50% of the market with plans to grow to 80% soon. FY25 has six LCV launches lined up, with two already launched in Q1 and four more to come. The sub 2-ton segment is a medium-term project. MS in the ICV bus segment is under 20%, so new products targeting the school and staff segments will be launched, along with other new products in the coming quarters.

Launches

Ashok Leyland is confident in increasing market share in both the truck and bus segments, with several new launches this year. New product introductions include a nine-meter electric product. The IeV 4 EV-LTV and IeV 2, both segment-first e-LCVs, have potential to transform last-mile mobility. Ohm, the eMaas subsidiary, manages electric bus operations in Bangalore, Ahmedabad, Bihar, and Chandigarh. The company has the technology to produce engines beyond 250 horsepower and programs to extend higher horsepower range.

Export

Subdued export markets are showing early growth signs, aiding international business volumes. Tractor-trailer demand is growing rapidly in India (20% of the market) and Europe (60-70%).

RM

Raw material costs as a % of revenue are now at 72.2%, 1.5% lower than Q1FY24. Fuel prices remain softer, and cost-saving efforts continue. No expectation of commodity cost hardening in the next two quarters, which should help improve margins.

Margin

Better product realization should contribute to improved margins. The company is optimistic about achieving a full-year margin higher than the previous year, moving toward mid-term EBITDA margin goals.

Order

The company has orders for 950 buses for Delhi, 300+ for Bangalore, 100 for UP in March, and another 400 for Delhi after April. New product introductions include a nine-meter product.

Price

High commercial vehicle prices in the last 3-4 years have caused a "mental shock" for fleet operators, affecting fleet replacement decisions. Positive trends in freight movement, demand, and rates indicate strong underlying demand. No price increases in Q1 or Q2 FY25.

Distribution

Relying on supplier partners for designs and components, especially on the switch side.

Employee

Employee expenses include wages and salaries. Little movement in labor costs between Q4 and Q1. Wage hike implemented from July 1.

ESG

Ashok Leyland aims to achieve net zero by 2048 and carbon neutrality by 2030.

EV

Progress on battery EV alternative fuel vehicles in MHCV and LCV segments to push decarbonization.

Capex

Investments for buses, E-LCV, or trucks. No capex investments in Q1FY25. Estimated INR 750 cr, additional room for capex for 500-600 cr.

Replacement

The CV industry fleet is aging, with an average of 10-11 years, indicating huge replacement demand potential in the next 2-3 years.

HLFL

Housing finance is a 100% subsidiary of Leyland Finance, which has been reverse-merged into Next Digital. The new entity will hold housing finance. AUM for HLF is INR 40k cr, HHF housing finance division is INR 11,500 cr, totaling INR 51,500 cr. Revenue is INR 1377 cr with a profit of INR 130 cr.

M&HCV

The M&HCV industry may see slight increases, with continued growth momentum expected this year.

Other expenses

Other expenses increased due to one-time costs for developing centers of excellence for battery packs, electric drive units, and software-defined vehicles, included in standalone financials.

PLI

The company is meeting all the requirements for PLI and FAME 3 and expects to receive certification and be eligible for PLI incentives sometime this year.

Exhibit 3: Revenue trend and expecting better growth led by upcoming launches

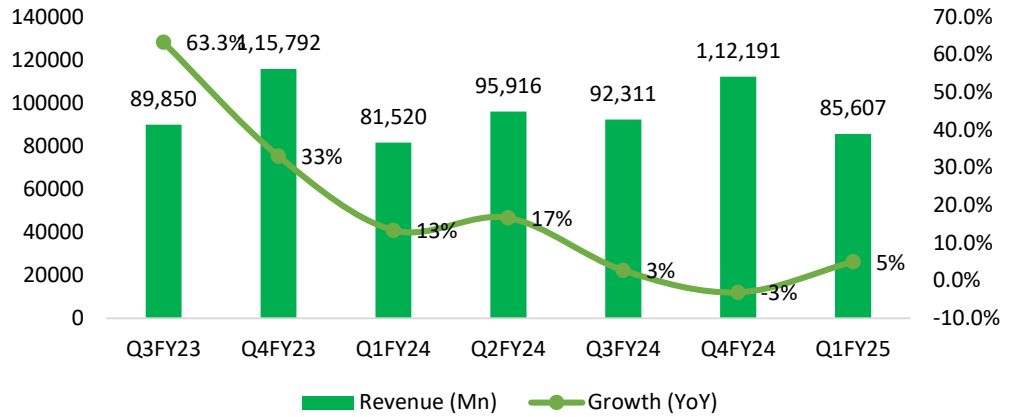


Exhibit 4 : EBITDA margin trend

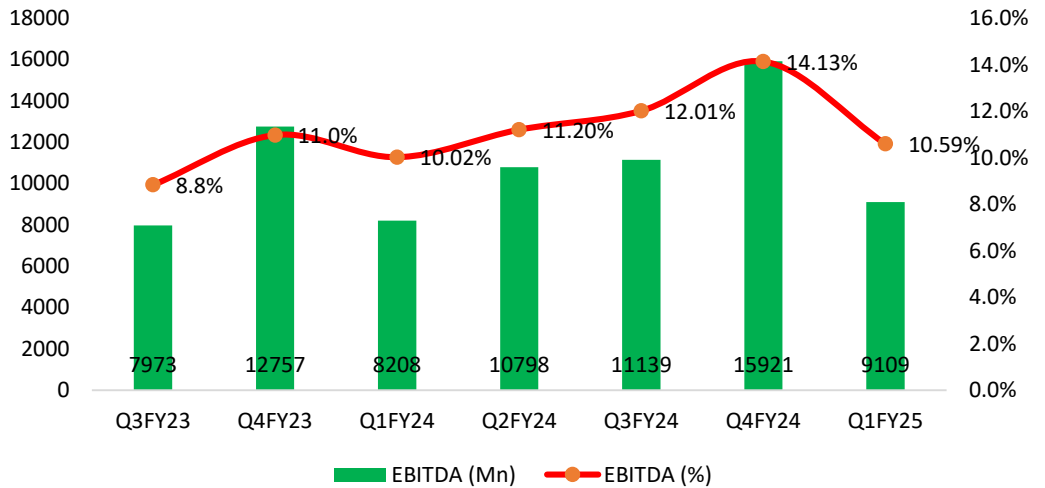
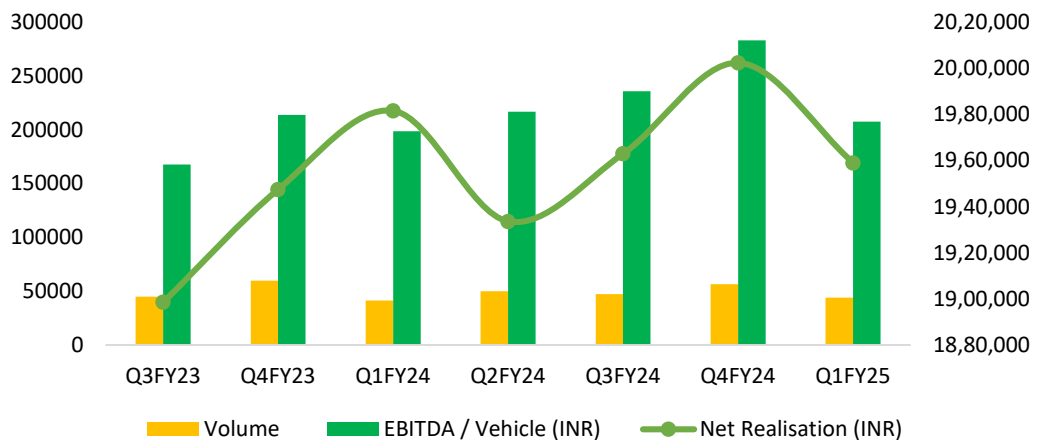


Exhibit 5: Volume expected to increase in the coming quarters



P&L (INR mn) Standalone	FY24	FY25E	FY26E	FY27E
Net sales	3,83,670	4,22,107	4,64,914	5,15,010
YoY (%)	6.2	10.0	10.1	10.8
Raw material cost	2,79,120	3,05,183	3,33,808	3,69,262
Employee Cost	22,334	25,684	29,536	33,967
Admin Expenses	36,151	40,100	44,167	47,896
Total expenses	3,37,605	3,70,967	4,07,511	4,51,125
EBIDTA	46,066	51,140	57,402	63,885
(%)	12.0%	12.1%	12.3%	12.4%
Depreciation	7,178	7,640	7,847	8,497
EBIT	38,888	43,500	49,556	55,388
Interest	2,494	3,977	4,566	5,167
Other income	2,466	2,515	2,565	2,617
PBT	38,859	42,038	47,555	52,838
Exchange gain / (loss) on swap contracts				
(-) Tax	11,743	11,038	12,632	14,159
Tax/ PBT	30.2	26.3	26.6	26.8
PAT	27,116	31,000	34,923	38,679
YoY (%)	109.3	14.3	12.7	10.8
PAT(%)	7.1%	7.3%	7.5%	7.5%
Extraordinary	(937.20)	-	-	-
Reported Profit	26,179	31,000	34,923	38,679

Cash Flow Standalone	FY24	FY25E	FY26E	FY27E
Net profit	26,179	31,000	34,923	38,679
Depreciation	7,178	7,640	7,847	8,497
Deferred tax	-1,111	-1,111	-1,111	-1,111
Change in W/C	25,317	-35,921	-23,059	-2,130
Operating cash flow	57,563	1,608	18,599	43,934
Capex	-4,690	-10,000	-10,000	-10,000
Investments	-12,821	2,353	-401	-401
Investing cash flow	-17,511	-7,647	-10,401	-10,401
FCF	52,873	-8,392	8,599	33,934
Dividend	-11,350	-13,441	-15,142	-16,849
Equity	(10,983)	-	-	-
Debt	6,410	8,974	9,154	9,337
Financing cash flow	-15,923	-4,467	-5,988	-7,512
Net change in cash	24,129	-10,506	2,210	26,021
Opening cash	5,013	34,382	19,864	22,688
Closing cash	34,382	19,864	22,688	49,324

B/Sheet (INR mn) Standalone	FY24	FY25E	FY26E	FY27E
Equity capital	2,936	2,936	2,936	2,936
		1,02,72		
Reserves	85,167	7	1,22,508	1,44,339
		1,05,66		
Net worth	88,104	3	1,25,444	1,47,275
Total Loans	56,693	65,668	74,821	84,158
Deferred Tax	5,563.10	-	-	-
		1,71,33		
Total Liabilities	1,50,360	1	2,00,266	2,31,433
		1,15,72		
Gross block	1,05,722	2	1,25,722	1,35,722
Less: Acc. Dep	45,242	52,882	60,729	69,226
Net block	60,480	62,840	64,993	66,496
Work in progress	2,015	2,015	2,015	2,015
Investments	56,798	53,507	53,907	54,307
Inventories	36,236	37,625	41,154	45,525
Debtors	35,697	34,694	38,212	42,330
Cash	34,382	19,864	22,688	49,324
Loans and advances	49,791	66,625	93,296	99,808
		1,58,80		
Current assets	1,56,106	8	1,95,350	2,36,987
Current liabilities	70,860	90,551	99,161	1,09,719
Provisions	54,179	15,289	16,840	18,654
Net current assets	31,067	52,968	79,350	1,08,614
		1,71,33		
Total Assets	1,50,360	1	2,00,266	2,31,433

Key Ratios	FY24	FY25E	FY26E	FY27E
EPS	8.9	10.6	11.9	13.2
Cash EPS	11.4	13.2	14.6	16.1
Book value	30	36	43	50
P/E (x)	27.6	23.3	20.7	18.7
EV/EBDITA (x)	15.0	14.0	12.6	11.0
P/B (x)	8.2	6.8	5.8	4.9
EV/Sales	1.8	1.7	1.6	1.4
ROCE	18%	22%	21%	20%
ROE	30%	32%	30%	28%
Dividend Yield	1.3%	1.5%	1.7%	1.9%
Gross asset turn	2.5	2.6	2.5	2.4
Days outstanding				
Inventory	47	45	45	45
Debtors	36	30	30	30
Creditors	88	90	90	90

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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